

An organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 where it is created for the purpose of investigating and prosecuting criminal, fraudulent, and unethical conduct on the part of lawyers, doctors, and laymen in the matter of casualty claims against insurance companies.

Advice has been requested whether an association of insurance companies as described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The association's purpose is to investigate or assist in the investigation, or to prosecute or assist in the prosecution, of criminal, fraudulent, and unethical conduct by lawyers, doctors, and laymen relative to casualty claims against insurance companies. Its income is from dues and assessments based upon a percentage of the direct premiums earned in the State.

Many of the matters investigated and prosecuted by the organization are referred by the general public, the State department of insurance, medical associations, police departments, and bar associations.

The association prosecutes cases involving improper acts of doctors before the agency which regulates the practice of medicine within the State. It prosecutes actions against lawyers before a special commissioner appointed by the appropriate State authority. It investigates improper acts of laymen and assists police departments and district attorneys in the prosecution of such criminal acts before the criminal courts.

Each member insurance company has its own claims department which investigates claims. Only those cases in which the company's investigation of a claim discloses a reasonable suspicion of criminality, fraud, or unethical conduct are referred to the association for investigation. Once a case is referred, the case (as distinguished from the claim) is taken out of the hands of the company. The company's participation in the case thereafter is limited to the furnishing of witnesses if summoned.

Section 501(c)(6) of the Code provides that business leagues, chambers of commerce, real estate boards, and boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual, are exempt from Federal income tax.

Section 1.501(c)(6)-1 of the Income Tax Regulations requires that in order to qualify for exemption under section 501(c)(6) an organization's activities should be directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for

individual persons.

The primary purpose of the association is to improve conditions generally in the insurance business by minimizing criminal, fraudulent, and unethical practices rather than to investigate, defend, or settle claims for its member companies. Therefore, the association's activities are directed to the improvement of business conditions in one or more lines of business as distinguished from the performance of particular services for individual persons. Accordingly, the subject organization is exempt from Federal income tax under section 501(c)(6) of the Code.

An organization which considers itself within the scope of this Revenue Ruling must, in order to establish exemption under section 501(c)(6) of the Code, file an application on Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place or business or principal office of the organization. See section 1.501(a)-1 of the regulations.